

VZCZCXRO8126
OO RUEHFK RUEHKSO RUEHNH
DE RUEHKO #0163/01 0152236
ZNY CCCCC ZZH
O 152236Z JAN 07
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9782
INFO RUEHBJ/AMEMBASSY BEIJING PRIORITY 5472
RUEHLO/AMEMBASSY LONDON PRIORITY 1671
RUEHMO/AMEMBASSY MOSCOW PRIORITY 1464
RUEHUL/AMEMBASSY SEOUL PRIORITY 1563
RUEHTC/AMEMBASSY THE HAGUE PRIORITY 1050
RUEHFK/AMCONSUL FUKUOKA PRIORITY 9532
RUEHNH/AMCONSUL NAHA PRIORITY 2012
RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 2987
RUEHKSO/AMCONSUL SAPPORO PRIORITY 0551
RHMCSUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RHHMUNA/HQ USPACOM HONOLULU HI PRIORITY
RHMFISS/COMUSJAPAN YOKOTA AB JA PRIORITY
RUAGAAA/COMUSKOREA SEOUL KOR PRIORITY
RUCNDT/USMISSION USUN NEW YORK PRIORITY 3008
RUEAIIA/CIA WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 000163

SIPDIS

SIPDIS

E.O. 12958: DECL: 01/12/2016

TAGS: [PREL](#) [ENRG](#) [EPET](#) [RU](#) [JA](#)

SUBJECT: JAPAN OFFERS FAVORABLE ASSESSMENT OF SAKHALIN 2
DEAL

REF: TOKYO 7113

Classified By: Charge d' Affaires Joseph R. Donovan. Reasons 1.4 (B) (D)

¶1. (C) Summary. The Kremlin,s aggressive move to increase Gazprom,s stake in the Sakhalin 2 project was largely driven by Russian domestic political considerations, MOFA Russian Division officials told poloffs recently. Royal Dutch Shell (RDS) worsened things when it committed a &big blunder8 and &double-crossed8 the Russians. Japanese officials, after warning Moscow that any unilateral decision to shut down Sakhalin 2 would turn the matter into a &very serious diplomatic issue,8 finally convinced President Putin to treat the Sakhalin 2 problem as a commercial, rather than a political problem. Surprisingly, MOFA believes that the successful outcome has benefited overall Russia-Japan relations and may facilitate discussion in other areas, including the Northern Territories issue. End Summary.

Domestic Politics

¶2. (C) On December 28, poloffs met with MOFA European Affairs Bureau Russian Division Director Kuninori Matsuda to review events connected with the Sakhalin 2 consortium,s recent decision to increase Russian Gazprom,s stake in the joint energy project. According to Matsuda, Russia,s current policy with regard to the Sakhalin 2 energy project, and in particular Moscow's recent moves to increase Gazprom,s share in the project, have largely been driven by Russian domestic political considerations. Russia,s current political scene is dominated by supporters of the three major political figures, Matsuda asserted, two of whom have positioned themselves to run in the presidential election: First Deputy Premier Medvedev, Deputy Premier and Defense Minister Ivanov, and Deputy Chief of Staff Sechin, who supports Putin. From MOFA,s perspective, President Putin,s decision not to seek re-election in the March 2007 presidential election has motivated some of the president,s supporters to manufacture a crisis by creating political problems (including perhaps, he speculated, the assassination of Litvinenko in London). Sechin,s group wants to change the constitution in order to

allow Putin to be re-elected, Matsuda said.

13. (C) Further complicating the Sakhalin 2 issue, Matsuda continued, is the fact Medvedev and Sechin serve as presidents of Gazprom and Rosneft, respectively. MOFA has heard rumors that Putin would like to be appointed president of Gazprom after leaving the Kremlin) a platform that he would use as a springboard for the 2012 presidential election. Based on the nexus that exists between high-level Russian government officials and the energy sector, MOFA had advised senior Japanese officials that &Gazprom is a presidential matter so it will be tough to stop8 the Sakhalin 2 restructuring.

Royal Dutch Blunder

14. (C) Royal Dutch Shell (RDS) also committed a &big blunder,8 Matsuda stated. During negotiations held in 2006, RDS and Gazprom agreed to an equity swap that increased the Russian company,s share in the Sakhalin 2 project. In exchange, Gazprom agreed to pay RDS a commission for use of the Siberian oil fields. However, just a few days after the negotiations concluded, RDS, without consulting other Sakhalin 2 consortium members, announced that cost overruns on the energy project had increased from USD 10 billion to 20 billion. Matsuda pointed out that the revelation had the immediate effect of devaluing Gazprom,s equity in the venture, and put off by at least 10 years the time when Russian officials could hope to begin to recoup any profits from the project. Mitsui and Mitsubishi, who were not

TOKYO 00000163 002 OF 002

informed of the decision until the last minute, were also &upset8 by RDS, &double-cross8 of the Russians, Matsuda claimed.

Japan Limits Political Damage

15. (C) Japanese government efforts then focused on trying to convince President Putin to treat the Sakhalin 2 issue as a commercial, rather than a political problem, Matsuda explained. Tokyo told Kremlin officials that any unilateral decision to shut down Sakhalin 2 would turn the matter into a &very serious diplomatic issue.8 Japanese officials argued that a unilateral shutdown would disrupt much-needed energy investment in Russia by Japanese companies. Matsuda also revealed that PM Abe telephoned Putin to press Tokyo,s case.

16. (C) Moscow, Matsuda noted, eventually agreed to return to the commercial negotiations. Those talks focused on three areas: 1) Gazprom,s participation in the project, 2) cost overruns, and 3) ecological concerns. The consortium members eventually convinced Russian officials that the cost overruns were legitimate. Matsuda observed that, after Gazprom had secured its participation on advantageous terms, &the ecological issues went away.8

Bittersweet Win-Win

17. (C) Matsuda, saying that Tokyo had managed to avoid a worse case scenario, outlined Japan,s gains from the recently concluded Sakhalin 2 deal. The consortium brought Gazprom into Sakhalin 2 as a major stakeholder, a step that would &guarantee8 the project. As partners in Gazprom, Putin and other high-level Russian officials would also provide direct political support for the energy deal. Matsuda insisted that the financial arrangement for the consortium partners was &satisfactory,8 and that the companies &would not have to worry about a class-action suit

by stockholders.8

18. (C) Reaching agreement on Sakhalin 2 increased the likelihood that the two sides would be able to reach an accommodation on future deals, &Sakhalin 3, 4, 5, and 6,8 Matsuda suggested. MOFA also believes that the diplomatic discussion improved the overall atmospherics between Russia and Japan and might facilitate discussion in other areas, including the Northern Territories issue. In a parting remark, Matsuda asserted in a half-joking manner that the U.S., which had been &very active8 in communicating with Japan at start of the Sakhalin 2 situation, &suddenly stopped calling8 after Kremlin officials allegedly told Washington that Exxon,s investment in Sakhalin 1 would not be affected.

DONOVAN